CANADIAN LABOUR CONGRESS

RESPONSE TO THE

STANDING COMMITTEE ON HEALTH, WELFARE,

AND SOCIAL AFFAIRS

(Child and Elderly Benfits Consultation Paper)

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March 1985

Mr. Chairman, members of the Standing Committee on Health, Welfare and Social Affairs, the Canadian Labour Congress is particularly pleased to be able to appear before you to present its views on the Consultation Paper on Child and Elderly Benefits that was issued by the Minister of Health and Welfare, the Honourable Jake Epp in January 1985. The open and participato[illegible] process that is involved in the issuing of the Consulta[illegible] Paper and the holding of public hearings by this Committee is welcomed by the Congress. We are also pleased to appear before you because the work of the Standing Committee on Health, Welfare and Social Affairs is always of great interest to Canadian workers in general, and the Canadian Labour Congress in particular. From the time of its founding, nearly thirty years ago, the CLC has been a very active advocate of the programs that fall within the purview of this Committee. Therefore, we are most pleased to appear before the Committee for the first time during the thirty-third Parliament.

Below we will outline our views on the manner in which the Consultation Paper addresses child and elderly benefits. However, we would like to offer some comments of a more general nature at the outset.

General Comments

When the Consultation Paper was first made public, we at the CLC -- like people in other socially oriented organizations -- felt relieved. We were acutely aware of the fact that certain business organizations in Canada were proposing a wholesale attack on the principle of universality of social programs. We also felt that the current government had manifested a degree of ambivalence on this critically important question. As a result, we felt some understandable relief when the Consultation Paper identified the following as its three guiding principles:

1. The concept of universality is a keystone of our social safety net. Its integrity must not and will not be called into question.
2. The concept of a means test to determine eligibility for selective benefit programs is not appropriate. Eligibility for these programs, such as the Child Tax Credit and the Guaranteed Income Supplement, will continue to be determined on the basis of taxable income.
3. Any savings that may result from program changes will not be applied to a reduction of the deficit.

We are particularly pleased that the Consultation Paper endorses the principle of universality. We believe that the universality of social programs is a critical element in establishing social solidarity among Canadians as it allows all Canadians to share in social benefits. Universality avoids the counter-productive incentives of selective programs and, most importantly, it is the best way to insure that all of those who are "most in need" will benefit from social programs.

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Having had an opportunity to reflect on the contents of the Consultation Paper, our reaction has not changed. Nonetheless, we are increasingly disturbed by the limitations of the Consultation Paper. The options that are deemed to be available are severely limited by the consideration that:

> No further expenditures additional to those already budgeted will be undertaken in 1985-86, on programs to provide social benefits, except where they can be funded by reallocating resources already committed for programs in the social field.

Thus the options that are deemed to be available are limited by a severe fiscal constraint. In addition, the discussion in the Consultation Paper is further limited by a rather narrow view of the objectives to be served by social programs. This second limitation is particularly important as it relates to the discussion of Child Benefits and this limitation will be discussed below. Nonetheless, there are some general points to be made at this stage about both the fiscal constraint and the objectives of social programs.

Objectives of Social Programs

One of the concerns that runs throughout the Consultation Paper is the distributional impact of Child and Elderly benefits. This concern is also reflected in the Agenda Paper,

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"A New Direction for Canada", where it is suggested that "...scarce resources should be diverted first to those most in need." (p. 71).

At this juncture, three points need to be made about the objective of helping those most in need or the redistributive aspect of social policy:

1) helping those most in need is the most compelling objective of social programs in an ethical sense, but it is only one of a number of valid objectives of social programs which also include: providing for the maintenance of living standards in the case of contingencies such as unemployment, old age and industrial accident; guaranteeing access to essential services regardless of one's ability to pay when services are required; and, providing an earned entitlement to non-market incomes;

2) programs which are not designed primarily to redistribute income should not accentuate income differentials, but they should not be judged primarily in terms of their redistributive impact; and,

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3) the degree of redistribution that will arise thanks to a social program will depend not only on the design of the social program itself, but also on the progressiveness of the tax system that is used to raise the revenues that finance the benefits provided by the social program .

In view of these points we would emphasize that the redistributive objective of social programs cannot be fully met unless there is willingness to contemplate tax reform as well. In addition, the greatest shortcoming in Canada's social programs -- and the one with the greatest negative impact on the redistributive objective of social programs -- is the assistance available to people who are under 65 who do not qualify for Unemployment Insurance benefits.

The Fiscal Constraint

As was noted above, the options that are deemed to be available in the area of child and elderly benefits are constrained by the consideration that the size of the social affairs envelope is fixed for 1985-86. In our view this constraint is purely arbitrary in the sense that Canada has not reached an outer limit on what can be afforded in the area of social programs. According to the Organization for Economic Co-operation and Development, in 1981 Canada ranked only theirteenth out of nineteen industrial countries

in terms of the percentage of Gross National Product that was represented by social expenditures. To move to the middle rank of the nineteen countries surveyed, Canada would have to have increased its social spending in 1984 by more than $23 billion. To match the top ranking country, Canada would have to have increased its social spending by more than $67 billion! International comparisons of this sort are fraught with technical difficulties. Nonetheless the gap between Canadian social expenditures expressed as a percentage of GNP and those of other countries suggests that we have a long way to go before we reach the outer limit of what we can afford. It is also worth noting that there does not appear to be any clear relationship between the percentage of GNP spent on social programs, and economic performance. Thus we do not believe that a cutback in universal benefits is required to finance greater benefits for those most in need.

We are also concerned about the possibility that the fiscal constraint mentioned for the year 1985-86 may be extended into the future. In this regard we would note that the high rates of unemployment that are likely to prevail until at least the end of the decade, and the aging of the Canadian population, will exert upward pressure on social expenditures even if no changes are made to social programs. Thus the continued imposition of a cap on expenditures that fall within the Social Affairs Envelope could only be accommodated by program cutbacks. In view of this concern, we believe that the government should clarify its intent with regard to the future of the fiscal constraint that has been imposed on the Social Affairs

Envelope for 1985-86. Our own view is that the constraint is not viable in the long term and that this fact should be squarely faced now.

Elderly Benefits

The comments on Elderly Benefits in the Consultation Paper are made against the backdrop of ten years of intensive debate on pension reform in Canada. The CLC has been a very active participant in that debate from the beginning and a complete statement of our views is available in "The CLC Proposal for Pension Reform" which we published in June of 1982. In that document we discuss not only the programs under review in the Consultation Paper, but also the structure, benefit levels and financing of the Canada Pension Plan as well as the regulations that should govern occupational pension plans.

In relation to the Old Age Security (O.A.S.) and the Guaranteed Income Supplement (G.I.S.) we proposed the following:

1. an increase in O.A.S. benefits of 25 per cent;
2. continued price indexing of O.A.S. supplemented by a regular five year review of O.A.S. benefit levels to insure that they maintain a stable relationship with average wages and salaries;
3. an increase in the maximum G.I.S. for singles of 25 per cent and an increase in the maximum G.I.S. for couples of 11½ per cent; and

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4) continued price indexing of G.I.S. supplemented by a regular five year review of the minimum income guaranteed to people over 65 to insure that their incomes will be above the Statistics Canada poverty line for Canada's largest cities.

Underlying these proposals were a number of more general objectives for Canada's pension system. In combination, the O.A.S. and G.I.S. proposals were designed to insure that all Canadians over 65 would have incomes above the poverty line. The increase in O.A.S. benefits, when coupled with a doubling of CPP benefits which we also proposed, would have insured that all people with moderate and low earnings would fully maintain their standard of living in retirement. Other changes to the CPP that we proposed would have put married women who never enter the paid labour force on the same pension footing as their spouses and would have guaranteed that their standard of living would be fully maintained should their husbands die before they do. In addition, our proposals were designed to reduce the need for older Canadians to draw benefits from the income-tested G.I.S.

In relation to the proposals that we have made in relation to the O.A.S. and G.I.S., the proposal in the Consultation Paper to maintain the status quo falls decidedly short of the mark. Indeed, the discussion of Elderly Benefits in the

Consultation Paper is striking, in part, because it suggests no general objectives that ought to be met by Canada's programs for the elderly. On the other hand, we take some consolation in the fact that the Consultation Paper rejects certain possibilities for change that are mentioned in a "New Direction for Canada" (p. 77). Specifically the Consultation Paper does not take up the following suggestions:

> ... one possibility would be to reduce the amount of O.A.S. available to high-income pensioners, by making benefits taxable at higher than normal rates or subject to some other tax recovery scheme.
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> Another alternative involves reducing or eliminating the indexation of O.A.S. while compensating pensioners in need.

Because we are vehemently opposed to these alternatives, we are naturally quite pleased that they are not incorporated in the Consultation Paper.

From our point of view, the position taken on elderly benefits in the Consultation Paper represents an ad hoc holding of the line. It is less than what we believe is necessary but it is preferable to some of the possibilities for change that have been mentioned. In context, there seems to be little point in belabouring the differences in

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detail between our views and those expressed in the Consultation Paper. However, it does seem appropriate to note some of the general issues that relate to points raised in the Consultation Paper with which this Committee and Parliament will have to come to grips.

The Consultation Paper notes, quite correctly, that the O.A.S. is the foundation of all elderly benefits in Canada. This is true in the double sense that it is the only source of income that is almost universally available to older Canadians and in the additional sense that it is the largest single source of income for older Canadians. Unfortunately though, it is a source of income that is suffering from neglect. There has not been an increase in O.A.S. benefits other than indexing adjustments since 1973, and the indexing itself was capped under the infamous 6 and 5 program of the previous government. One of the by-products of this neglect is that the value of O.A.S. benefits has sunk in relation to average wages and salaries from a high point of 20 per cent in 1964 to approximately 14 per cent today. Thus the effectiveness of the program in allowing retired persons to maintain their standard of living has been declining. It is because of this that we have proposed the increase in O.A.S. benefits and the regular five year review of benefits noted above. For the record, we would also note that the Government of Ontario has proposed a smaller increase in O.A.S. benefits and a regular review process that is identical to our proposal. (See: Government of Ontario, "Ontario Proposals for Pension Reform," p. 27)

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By way of contrast with the neglect that has been shown for the O.A.S., the G.I.S. has been increased on four separate occasions over the past six years in addition to the regular indexing adjustments. These increases have been driven by the positive desire to increase the minimum income guaranteed to older Canadians. At the same time, the choice of G.I.S. versus O.A.S. as the way of increasing the minimum guarantee has been motivated by a desire to save money during an era of fiscal restraint. At the C.L.C. we have never accepted the fiscal imperative that has guided this choice. But regardless of one's views on the necessity of fiscal restraint, continual increases in the maximum G.I.S. benefits in relation to other sources of retirement income have some discernable effects that should lead to caution in contemplating further increases in G.I.S. benefits relative to other sources of retirement income.

With regard to this matter, it is important to recognize that every time the maximum G.I.S. benefit is raised by one dollar, the income level up to which some G.I.S. is payable goes up by two dollars. Today, for example, the maximum G.I.S. benefit is $325.41 for a single person, and partial G.I.S. benefits are payable to a single person with income from sources other than O.A.S. of up to $650.82 per month. A $25 increase in the maximum G.I.S. would raise the income level up to which partial G.I.S. benefits are payable to $700.82 per month. Thus, one of the inevitable effects of raising the maximum G.I.S. is to increase the portion of the elderly

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population that is eligible for G.I.S.; this happens because the level of income up to which G.I.S. is payable has been increased.

As matters currently stand, more than half of all O.A.S. recipients also receive G.I.S. benefits. From our point of view there are several reasons to be concerned about this state of affairs. First of all, as a philosophical point, we believe that elderly Canadians should, as far as possible, be provided with adequate retirement income without having to draw on income tested or welfare style benefits. Some people have tried to dismiss this point on the grounds that the G.I.S. is as free of stigma as an income-tested program can be. While we appreciate this point, we also understand that 15 to 20 per cent of the people whose incomes would make them eligible for G.I.S. do not apply for it.

In addition to our philosophical concern about G.I.S., there are some more practical reasons for being concerned about having such a large portion of the elderly on G.I.S. For instance, once a person begins to receive G.I.S., the net value of the income they receive from the Canada and Quebec Pension Plans, occupational pension plans, or individual savings, is reduced by fifty cents on the dollar. This happens because every dollar of income they receive from these sources reduces their G.I.S. benefits by fifty cents. The other side of this coin is that the G.I.S. program

creates an incentive for people to divest themselves of income earning assets. Thus there is a degree to which the amount of G.I.S. that is paid to a person depends on how clever they are in arranging their affairs so as to maximize G.I.S. benefits.

Having raised these concerns about the G.I.S., we wish to reassure you that we are not driven to the conclusion that the program should be scrapped. The message we wish to leave with you is that there are strong reasons for being cautious about enlarging the G.I.S. relative to other parts of the retirement income system. We would also point out that we are not alone in being concerned about the enlarged role that G.I.S. has come to assume in our retirement income system. A similar concern was expressed to the Parliamentary Task Force on Pension Reform by Mr. Laurence Coward, one of Canada's foremost actuaries and a witness before the Task Force as part of the Canadian Chamber of Commerce delegation. Mr. Coward pointed out that in most countries, if more than fifteen per cent of the elderly population receives welfare style benefits, then fundamental problems with the pension system are deemed to exist.

The Consultation Paper discusses not only O.A.S. and G.I.S., but it also asks for opinions on the aged exemption and the pension income deduction. These are matters with respect to which the C.L.C. does not have a formal position. However, the Congress does share the concern expressed in the Consultation Paper about the distributive impact of these provisions of the

Income Tax Act and we could endorse their elimination if the savings that resulted were rolled into direct benefit programs. The data in the Consultation Paper suggest that the revenue savings from the elimination of these provisions could support a $24 per month increase in O.A.S. benefits. However, we would suggest to members of the Committee that before the elimination of these tax provisions is endorsed, consideration should be given to the fate of the $1,000.00 deduction for interest, dividend and capital gains income. Eliminating the pension income deduction with no other adjustment to the tax system could simply change preferred methods of holding wealth. In addition, changes in the tax assistance for those over 65 should probably be considered in light of the tax assistance offered to younger people to save for retirement. In this regard we would point out that the former government's green paper on pension reform, "Better Pensions for Canadians" (December, 1982), noted that the federal and provincial governments were giving up approximately $5 billion per year in tax assistance. The primary beneficiaries of this assistance are middle aged men with high earnings. At some point during the life of this Parliament, you will likely be asked to consider changes to the rules governing the provision of this tax assistance and whatever is done in this regard should be compatible with our commitment to today's elderly. At a time when fiscal constraints permit nothing but holding the line on O.A.S. and G.I.S. benefits, it would strike us as singularly inappropriate to sacrifice more government revenue to support the retirement saving of the future elderly.

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Finally, the Consultation Paper mentions the government's commitment to " ...a comprehensive overhaul of the Canadian pension system, including such matters as portability, vesting, survivors benefits, and pension coverage for women". We have inferred that this refers to a commitment by the new government to pursue the changes to the regulations that govern occupational pension plans that were proposed by the former government in February,1984. If our inference is correct, there are two points to make. The first is that we view these changes as intrinsically valuable, especially for women. Indeed, the regulatory changes proposed by the former government are similar to our own, although they do not go far enough with regard to inflation protection. However, it must be understood that while these regulatory changes are important, they cannot redress our most fundamental pension problem - especially for those people who have completed a substantial part of their working life. In this regard two points bear particular emphasis: first, the full impact of these changes will only be felt by new entrants to the labour force at the time of their retirement; second, these changes will provide virtually no benefit to the two thirds of paid women workers and the one half of paid men workers who do not belong to occupational pension plans. In light of these considerations, we view the regulatory changes as a desirable supplement to a necessary increase in CPP benefits; they are not a substitute for an increase in CPP benefits.

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Child Benefits

Our concern with the discussion of Child Benefits in the Consultation Paper runs much deeper than our concern with the discussion of Elderly Benefits. We believe that one of the important objectives of a program of child benefits has been totally ignored in the Consultation Paper and that the options that are considered are excessively constrained by fiscal considerations that may be short term. Thus we do not believe that the Consultation Paper has established an adequate basis for determining what should be done with Child Benefits. We do not have a specific counter proposal to make at this time. But, in light of what follows we would ask the Committee to advise the government that a much more fundamental review of Child Benefits is required before the government sets its course.

Both of the options for change to the Child Benefits package involve a redistribution of income from higher income families with children to lower income families with children. A central element in both options is the elimination of the child exemption (Option 1) or its reduction (Option 2). While the elimination or reduction of the child exemption can be viewed as intrinsically desirable on distributional grounds, we are very uncomfortable with each of the Options taken in its totality.

From our point of view one of the important objectives of Child Benefits should be to equalize the economic circumstances of families with the same market income, but different numbers of children. In other words, because employment and property

income are allocated without reference to child rearing responsibilities, the combination of taxes and Child Benefit programs are used to redistribute income from people without children to people with children. Such an arrangement is put in place in view of the positive social value of child rearing, and in view of the fact that the standard of living that can be achieved with a given level of market income will depend on how many people have to be supported on that income.

Unfortunately, the Consultation Paper makes no reference to the desirability of equalizing the economic conditions of families that have the same market income but different numbers of children. As a result, the Consultation Paper fails to note that while the elimination of the child exemption is easy to support on distributional grounds, its elimination reduces the social support for child rearing <u>within the high income range</u>. Nor does the Consultation Paper note that the Family Allowance program is an equitable way of equalizing the economic situation of families with the same market income and unequal numbers of children. From our point of view it is quite unreasonable to proceed with a restructuring of Child Benefits without addressing directly the desirability of trying to equalize the economic situation of families that have the same market income and different numbers of children.

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Also, we noted above that the redistribution of income in both options is from higher income families with children to lower income families with children. The limited nature of this redistribution is a direct consequence of the fiscal constraint that has been imposed on the consideration of alternatives. We have expressed our dissatisfaction with this constraint above and here would underline the point that were it not for this constraint, the Child Tax Credit could be increased without the need to contemplate a reduction in Family Allowance benefits, as is contemplated in Option 2. We would also point out that both options are described as if they are to be permanent features of the Child Benefit package and yet the fiscal constraint is said to exist for 1985-86. Once again, it is important to establish the intentions of the government with regard to the Social Affairs Envelope beyond 1985-86. It would be extremely unfortunate if permanent changes were made to the structure of the Child Benefits package in light of a short term constraint.

The final concern of a general nature that we wish to raise relates to the redistributive motivation that drives both of the options. We wholeheartedly endorse the idea of doing more for those most in need but we have serious doubts about whether the Child Tax Credit is the most useful instrument for pursuing this objective. In this regard we would point out that the problems of low income are most compelling when children have to be supported by a low income, but the problems of low income are not confined to families with children. In addition,

the Child Tax Credit, even under Option 2, would still provide benefits to families with incomes up to approximately $32,000 per year. Thus while the Child Tax Credit can be viewed as being "better targeted" to help those most in need than is the Family Allowance program, it is still a rather dull redistributive instrument. As an alternative, we would prefer to see the Government of Canada pursue the possibility of using the Canada Assistance Plan more creatively to target income to those most in need. Specifically we would like to see an attempt made to establish minimum national standards of social assistance benefits and more civilized treatment of social assistance beneficiaries.

We also want to draw the attention of Committee members to the fact that there is a critically important aspect of Child Benefits that is not touched on at all in the Consultation Paper. We are referring here to public support for day care which, as members of the Committee are aware, is a subject that is currently under review. In the context of this Submission, we would simply urge you to be sure that whatever is decided about Child Benefits based on the Consultation Paper is compatible with the future evolution of public support for adequate day care for all Canadians.

At the beginning of this section we acknowledged that we have not established a specific counter proposal on Child Benefits as we have with regard to Elderly Benefits. However, as you have probably inferred from the foregoing, we are not convinced that a well worked out position is to be found in the

Consultation Paper. At this juncture there are two specific points on which we are emphatic: we do not believe that Family Allowance benefits should be reduced; and we would oppose a special surtax on Family Allowance benefits paid to high income families.

With regard to the Family Allowance program we would note:

1) it is an equitable way of addressing the objective of trying to equalize the economic conditions of families with the same market income and different numbers of children;
2) it is usually paid to mothers; and,
3) it provides monthly, as opposed to annual income.

We recognize these features of the program as virtues that ought to be preserved as fully as they are today. Indeed if one wanted to pursue the objective of equalizing the economic situation of people with the same market income and different numbers of children, then an increase in Family Allowance benefits would be the most appropriate way to meet this objective.

With regard to a special surtax on Family Allowance benefits received by high income families, we would view this as bad social policy and bad tax policy. As social policy, a surtax on Family Allowance benefits would suggest that income from a universal income transfer program is less valuable and/or less legitimate than income from other sources. From our point of view this is totally out of keeping with the principle of universality.

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As tax policy it would be inequitable in that it would impose a higher rate of taxation on a Family Allowance recipient than on a person with the same income who did not receive a Family Allowance benefit.

Concluding Comment

In our opening remarks we commended the open and participatory process that is involved in the issuing of the Consultation Paper and the holding of public hearings on it. While we have offered some dissenting views on the contents of the Consultation Paper, to us that only serves as evidence of the desirability of the process. At this juncture we would add one qualification to our earlier comment. As our previous comments have suggested, the Consultation Paper discusses some very complex areas of social policy. We believe that the proper resolution of the issues raised in the paper requires a great deal of serious deliberation about objectives and the proper means of meeting those objectives. Moreover, we are concerned that the time frame that the government has established for consultation is too short and we would urge the Committee to express this view to the government.

Respectfully submitted on behalf of the
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Dennis McDermott, President
Shirley G.E. Carr, Secretary-Treasurer
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